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C O N F I D E N T I A L SECTION 01 OF 03 JEDDAH 000548

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SUBJECT: AMBASSADOR MEETS WITH ISLAMIC DEVELOPMENT BANK
PRESIDENT

Classified By: Ambassador James C. Oberwetter, for
reasons 1.4 (b) and (d).

¶11. (C) SUMMARY: On August 8, Ambassador Oberwetter led a group to met Islamic Development Bank (IDB) President Al-Madani. The Ambassador apprised Al-Madani of the forthcoming visit of Deputy Treasury Secretary Kimmitt to discuss U.S. and potential IDB involvement in the reconstruction of Lebanon and Iraq. Al-Madani described current IDB involvement in Iraq and explained IDB operations.
END SUMMARY.

AMBASSADOR OBERWETTER'S MEETING WITH IDB PRESIDENT - AUGUST 8, 2006

¶12. (C) On August 8, Ambassador Oberwetter, accompanied by Jeddah CG and Pol/Econ Chief met with Dr. Ahmad Mohamed Ali Al-Madani, President of the Islamic Development Bank (IDB). Also present for the IDB was Director of the Special Assistance and Scholarship Office Dr. Mohamed Hassan Salim, and Press Officer Mustafa H. Wadi.

KIMMIT VISIT - LEBANON

¶13. (C) The meeting began with Dr. Al-Madani expressing his grave concern over the situation in Lebanon and his hope that a cease fire could be effected quickly. The Ambassador agreed that the situation was deplorable, but that a stable solution must be found. In connection with Lebanon, the Ambassador informed Al-Madani of the impending visit of Deputy Treasury Secretary Robert Kimmitt. The Ambassador said that Kimmitt would be interested in the latest information the IDB had concerning events in Lebanon. Kimmitt was also formulating U.S. assistance and reconstruction efforts in Lebanon. The Ambassador described current U.S. assistance to the Lebanese people, consisting of an allocation of \$2 million in humanitarian assistance and \$4 million in in-kind assistance.

KIMMIT VISIT - IRAQ

¶14. (C) The Ambassador told Al-Madani that a second subject for D/S Kimmitt's visit was to discuss IDB assistance to Iraq. The Ambassador outlined the current level of the U.S. commitment to Iraq. The U.S. has already allocated \$21 billion to Iraqi reconstruction and Congress is in the process of voting on an additional \$2 billion, and promised that more funds would be forthcoming in the future.

IRAQ WILL REQUEST IDB ASSISTANCE

¶ 15. (C) The Ambassador advised Al-Madani that Iraq would formally approach the IDB with a request for assistance. He admitted that the situation in Iraq was fluid and unstable, and, as a consequence, many financial institutions were reluctant to invest or send personnel to Iraq. He noted instability was a primary reason that the Saudi government had not invested.

IDB AND IRAQ

¶ 16. (C) Al-Madani responded that the IDB is already involved in Iraq. Iraq's debt to the IDB has been successfully renegotiated. Iraq has made two installment payments and future installments were expected. He also revealed that an IDB loan to finance education projects in Iraq is scheduled to be signed on August 18. At this time, the IDB does not have staff in Iraq, but it has met Iraqi representatives in Amman and has also developed projects in cooperation with the World Bank, which does have representatives in Iraq. The educational project is a product of IDB-World Bank cooperation.

IDB OPERATING METHODS

¶ 17. (U) Explaining the IDB's operating methods, Al-Madani stated that the IDB generally engages countries at the level of the national government, but also has some contact with the private sector. The IDB endeavors to cooperate with all international financial institutions sharing its interest in promoting development. In addition to extensive interactions

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with the World Bank and IMF, the IDB routinely cooperates with the Kuwait Fund, the Saudi Fund, OPEC Fund, and UN agencies. Cooperation is multi-dimensional. It may consist of an exchange of information between the organizations, exchange visits of personnel, joint missions, or, as in the education project, joint financing. In a personal aside, the Ambassador told Al-Madani that James Wolfenson, whom Al-Madani knows well, is likely to conclude his mission for the Quartet in the near future and return to the private sector.

¶ 18. (U) In general, according to the President, the IDB's interaction with countries is through the agency of the member state's Governor or Lieutenant Governor on the Board of Governors of the IDB. These individuals attend the annual meeting of the IDB Board and may advocate for programs in their countries. Typically, the annual meeting would vote on projects and initiate action with the government of the requesting state. While the member state's representative on the Board of Governors is the primary contact for project requests and the official point of contact, technical and subordinate officials coordinate with the IDB project planning staff and in preparation of the loan package.

IDB GOVERNANCE

¶ 19. (U) When the IDB was formed in 1975, it had only 22 members; it now has 51. The IDB's Board of Governors is composed of the Finance Minister or the Economics Minister of the member states. During its first three years existence, the Board of Governors was a full-time board that oversaw Bank operations. This was judged unwieldy and was replaced by the current structure, in which the President and his staff oversee the day-to-day operations of the Bank. The Full Board of Governors meets yearly, most recently in Kuwait in May. In addition to the full Board, there is an executive committee of 14 members. Seven of the members of this committee are appointed by the major investors in the Bank, including Saudi Arabia which provides approximately 22% of the Bank's capital. The other seven members are elected by the full Board of Governors. This executive committee meets

every six weeks at the Bank's headquarters in Jeddah.

IDB FUNDS DOUBLED AT KUWAIT MEETING

¶10. (C) Al-Madani stated that at the Kuwait meeting of the Board of Governors in May, the Board of Governors voted to increase the capital of the IDB from 15 billion Islamic Dinars (ID) to 30 billion ID (Note: Al-Madani described the Islamic Dinar (ID) as the common accounting unit of the Bank, analogous to the Special Drawing Right (SDR) at the IMF. From the figures provided by Al-Madani during the conversation, this unit appears to equal approximately 1.5 USD; e.g. he offered the dollar equivalent of the above figures as 22-44 billion USD. End note). At this meeting it was also resolved that the subscribed capital of the member nations would likewise increase from 8.2 billion ID to 15 billion ID. The Governors also decided to pay off 1.3 billion ID (c. USD 2 billion) of outstanding debt.

INTENT TO FINANCE MORE LOANS

¶11. (C) Al-Madani said that these initiatives were taken in order to permit the Bank to finance more projects. They are in the process of issuing Islamic bonds, called sukuk, to finance development projects. Their first bond offering totaled USD 1 billion in two tranches of USD 500 million each. Both of these offerings were oversubscribed. Al-Madani proudly reported that Standard and Poor's rates IDB debt as a AAA investment.

IDB LOANS

¶12. (C) In its primary role as an investment and financing institution, the IDB makes soft loans and equity loans for major projects. The soft loans are provided from a relatively limited fund. They are relatively small in size, having a maximum value of 7 million ID. Other types of loans may range in size up to 70-80 million ID. The IDB offers short-term and long-term loans. Short-term loans are primarily used for trade-financing, and the IDB is involved

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in trade promotion and offers insurance to guarantee transactions. The total of the IDB's current loans are approximately USD 4.5 billion. The Bank's total operations amount to USD 44 billion according to Al-Madani.

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